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Comptroller of the Currency  
Administrator of National Banks

*Small  
Bank*

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Northeastern District  
1114 Avenue of the Americas, Suite 3900  
New York, New York 10036

## **PUBLIC DISCLOSURE**

**July 6, 1998**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Downingtown National Bank  
Charter Number: 661  
4 Brandywine Avenue  
Downingtown, Pennsylvania 19335**

**Office of the Comptroller of the Currency  
Eastern Pennsylvania Field Office  
3325 Street Road, Suite 120  
Bensalem, Pennsylvania 19020-2025**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Downingtown National Bank (DNB)** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of July 6, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**.

The following factors support this overall rating:

- DNB's average loan to deposit ratio during the examination period was 66%.
- A substantial majority of loans extended during the evaluation period were originated within DNB's assessment area.
- DNB's lending performance reflects a reasonable distribution of credit to borrowers of different income levels.
- DNB exhibits an adequate record of lending to businesses of all sizes, including small businesses and small farms.

The following table shows the performance level of Downingtown National Bank with respect to each of the five performance criteria.

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b>DOWNTOWNTOWN NATIONAL BANK PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does not meet Standards for Satisfactory Performance</b>
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different sizes		X	
Geographic Distribution of Loans			X
Response to Complaints	No complaints were received during the evaluation period.		

## Scope of the Examination

This evaluation of DNB's CRA performance covers the period from January 1, 1996 through July 6, 1998. The evaluation includes an analysis of DNB's designated assessment area, which covers portions of central Chester County located within the Philadelphia Metropolitan Statistical Area. We also based our analysis on DNB's Home Mortgage Disclosure Act Loan Activity Reports and Loan Registers. We tested these reports for accuracy during the examination.

## Description of Institution

DNB is wholly owned by DNB Financial Corporation, a Pennsylvania bank holding company. DNB is a \$226 million institution, which serves the community of central Chester County through seven retail branch offices of which six have automated teller machines (ATMs). The main office is located in Downingtown, Pennsylvania. DNB did not open or close any branches during the evaluation period.

DNB offers a wide range of credit products to its community. These products are consumer, mortgage, commercial, and construction loans. DNB has traditionally been flexible in granting loans to individuals, community groups, and local businesses. In addition, DNB does not have any financial or legal obstacles affecting its ability to meet community credit needs.

DNB's competition comes from regional and local banks, savings and loans, and credit unions. Bank management has identified primary competitors to be: First Financial Bank, First National Bank of West Chester, Elverson National Bank, Citadel Credit Union, Jefferson Bank, PNC Bank, NA, and First Union National Bank.

The following table reflects DNB's loan mix as of June 30, 1998.

<b>Types of Domestic Loans Outstanding</b>		
<b>June 30, 1998</b>		
<i>(\$000's)</i>		
<b><i>TYPE OF LOANS</i></b>	<b><i>AMOUNT</i></b>	<b><i>PERCENTAGE</i></b>
<b>Residential Real Estate</b>	\$46,980	35%
<b>Commercial Loans</b>	\$80,221	59%
<b>Installment</b>	\$5,577	4%
<b>Obligations</b>	\$1,760	1%
<b>Other (exclude consumer loans)</b>	\$1,738	1%
<b>TOTAL</b>	\$136,276	100%

## Description of Assessment Area (AA)

DNB has defined its AA as 53 specific census tracts in central Chester County, which is in the Philadelphia Metropolitan Statistical Area #6160. The AA meets regulatory guidelines and does not arbitrarily exclude any low- or moderate-income areas (LMI). We refer to LMI throughout this document to describe low- and moderate-income individuals and/or census tracts. Detail of the demographics of the AA is included in the following table.

<b>ASSESSMENT AREA DEMOGRAPHICS</b>			
<i>Designation</i>	<i># Census Tracts</i>	<i>% of Total Tracts</i>	<i>% of Households Residing in the Census Tracts</i>
<b>Low</b>	1	2%	2%
<b>Moderate</b>	5	9%	7%
<b>Middle</b>	20	38%	37%
<b>Upper</b>	26	49%	54%
<b>N/A</b>	1	2%	0%
<b>TOTAL</b>	53	100%	100%

More than 184,028 residents populate the AA. The AA's weighted average of census median family income is \$41,908.

As seen in the above table, 9% of households in the AA are located in LMI tracts, with a median housing value of \$144,937. The median age of housing stock in the AA is 32 years. Total occupied housing units is 95%, with owner-occupied housing at 71% and rental-occupied housing at 24%. Vacant housing units in the AA are 4%.

Unemployment rates have remained low and steady over the past two years at approximately 5%. Retail trade and light manufacturing are the largest employment sectors in the AA.

We determined the credit needs of the community through discussions with management and by reviewing local community contacts made by other regulatory agencies. The community contacts indicated that the primary credit need is affordable housing loans.

### **Conclusions with Respect to Performance Criteria:**

This review covered the period from January 1, 1996 to July 6, 1998 for all Home Mortgage Disclosure Act (HMDA) reported loans.

## Loan to Deposit Ratio

DNB's average loan-to-deposit ratio is 66%. Although this ratio is below national peer of 71% and local peer of 72%, it is considered reasonable given DNB's size, financial condition, and credit needs of the AA.

## Lending in Assessment Area (AA)

We reviewed DNB's HMDA loan application register to determine the location of loan originations. DNB has a good record of serving the credit needs of its entire community based on this sample. A substantial majority of loans are within DNB's AA, as indicated in the table below.

<b>TABLE 1 LENDING WITHIN THE AA</b>						
<b>Year</b>	<b># of Loans</b>		<b>% in AA</b>	<b>Amount of Loans (\$000's)</b>		<b>% in AA</b>
	<b>In AA</b>	<b>Out of AA</b>		<b>In AA</b>	<b>Out of AA</b>	
<b>1996</b>	113	6	95%	3,722	203	95%
<b>1997</b>	131	10	93%	6,689	693	91%
<b>TOTAL</b>	244	16	94%	10,411	896	92%

## Lending to Borrowers of Different Incomes

DNB's record of lending to borrowers of different income levels was evaluated using HMDA reportable loans originating in 1996 and 1997. Our review of HMDA loans revealed reasonable lending patterns during the examination period, and is presented within the tables that follow.

<b>TABLE 2a LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS HMDA LOANS - 1996</b>					
<b>Income Category</b>	<b># of Loans</b>	<b>% of # of Loans</b>	<b>Amount (\$000's)</b>	<b>% of Amount</b>	<b>% of Families in each income category</b>
<b>Low</b>	6	5%	138	4%	12%
<b>Moderate</b>	19	17%	497	13%	14%
<b>Middle</b>	37	33%	1,044	28%	24%
<b>Upper</b>	51	45%	2,043	55%	50%
<b>Total</b>	113	100%	3,722	100%	100%

**TABLE 2b**  
**LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS**  
**HMDA LOANS - 1997**

<b>Income Category</b>	<b># of Loans</b>	<b>% of # of Loans</b>	<b>Amount (\$000's)</b>	<b>% of Amount</b>	<b>% of Families in each income category</b>
<b>Low</b>	9	7%	221	3%	12%
<b>Moderate</b>	23	18%	677	10%	14%
<b>Middle</b>	28	21%	1,171	18%	24%
<b>Upper</b>	71	54%	4,620	69%	50%
<b>Total</b>	131	100%	6,689	100%	100%

Twenty-six percent of the families in the AA are defined as LMI. In 1996, 22% of DNB's HMDA-related loans were provided to LMI borrowers; in 1997, this total is 25%.

A market share analysis further supports DNB's record of lending to LMI individuals. The Lender Market Share Report shows that in 1996, DNB had a 1.40% aggregate market share for the number of loans made in their AA. DNB's lending market share to low-income borrowers was 1.97% and to moderate-income borrowers was 1.87%, which compares favorably to the overall market share.

### **Lending to Businesses of Different Sizes**

DNB's lending to businesses of different sizes is adequate. Small business loans are defined as loans of less than \$1.0 million; small farm loans are defined as loans of less than \$500 thousand. Sixty-one percent of DNB's commercial loan portfolio is to small businesses and small farms. As of June 30, 1998, DNB has 359 loans to small businesses and small farms totaling \$49.2 million, which is 36.1% of total loans.

### **Geographic Distribution of Loans**

The geographic distribution of HMDA loans reflects less than reasonable dispersion throughout DNB's AA. The data shows the majority of lending penetration exists within upper-income census tracts. All of DNB's branches and surrounding geographies are in middle- and upper-income census tracts, with most of the lending activity concentrated in these areas.

Regardless, 11% of the census tracts in DNB's AA are LMI. In 1996, DNB funded only 3% of HMDA reportable loans to borrowers in LMI census tracts. In 1997, DNB made only 1% of HMDA reportable loans to borrowers in LMI census tracts.

<b>TABLE 3a GEOGRAPHIC DISTRIBUTION OF HMDA LOANS WITHIN AA - 1996</b>					
<b>Income Level of Census Tract</b>	<b>Amount of Loans (\$000's)</b>	<b>% of Amount of Loans</b>	<b># of Loans</b>	<b>% of # of Loans</b>	<b>Geographic Distribution of Census Tracts</b>
<b>Low</b>	20	<1%	1	1%	2%
<b>Moderate</b>	67	2%	2	2%	9%
<b>Middle</b>	1,357	37%	39	34%	38%
<b>Upper</b>	2,278	61%	71	63%	49%
<b>NA</b>	0	0%	0	0%	2%
<b>Total</b>	3,722	100%	113	100%	100%

<b>TABLE 3b GEOGRAPHIC DISTRIBUTION OF HMDA LOANS WITHIN AA - 1997</b>					
<b>Income Level of Census Tract</b>	<b>Amount of Loans (\$000's)</b>	<b>% of Amount of Loans</b>	<b># of Loans</b>	<b>% of # of Loans</b>	<b>Geographic Distribution of Census Tracts</b>
<b>Low</b>	0	0%	0	0%	2%
<b>Moderate</b>	26	<1%	1	1%	9%
<b>Middle</b>	1,343	20%	40	30%	38%
<b>Upper</b>	5,320	80%	90	69%	49%
<b>NA</b>	0	0%	0	0%	2%
<b>Total</b>	6,689	100%	131	100%	100%

A market share analysis of DNB's record of lending to LMI census tracts shows mixed results. The Lender Market Share Report shows that in 1996 DNB had a 1.40% aggregate market share of the number of loans made in their AA. DNB's lending market share to low-income census tracts was 1.43% and to moderate-income census tracts was 0.69%.

## **Compliance with Antidiscrimination Laws**

A fair lending review performed with this CRA examination revealed satisfactory compliance with fair lending regulations. We noted no practices intended to discourage or impede potential borrowers from applying for credit.